

Patricia M. French
Senior Attorney
Legal

300 Friberg Parkway
Westborough, MA 01581
(508) 836.7394
Fax: (508) 836.7039
pfrench@nisource.com

August 20, 2004

VIA ELECTRONIC MAIL AND OVERNIGHT DELIVERY

Mary L. Cottrell, Secretary
MA Department of Telecommunications and Energy
One South Station
Boston, MA 02110

**Re: D.T.E. 04-57 – Bay State Gas Request for Recovery of Exogenous Costs Associated
the Lost Base Revenue (“LBR”)**

Dear Secretary Cottrell:

Enclosed for filing in the above-referenced docket are the Responses of Bay State Gas Company (“Bay State” or “Company”) to the First Set of Information Requests issued by the MA Department of Telecommunications and Energy (“Department”) on August 19, 2004. Specifically, enclosed are the responses to:

DTE 1-1 and DTE 1-24.

Please do not hesitate to contact me with any questions. Kindly date-stamp a copy of this letter for our files and return it to us in the enclosed envelope.

Thank you for your attention to this matter.

Very truly yours,



Patricia M. French

cc: Jody Stiefel, Hearing Officer (3 copies)
Alexander Kofitse, DTE
Carmen Liron-Espana, DTE
Timothy Cargill, DTE

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.
D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-1: Please refer to Exh. BSG-3, In. 35. Is Bay State seeking to recover the accumulated interest (carrying cost) of \$146,229, in addition to the \$2,169,462?

RESPONSE: Yes, the Company is seeking to recover \$146,229 of interest accumulated from September 2003 (the first month after the exogenous LBR period of September 2002 through August 2003) through October 2005 (the end of the exogenous LBR annual recovery period). Please refer to Schedule 2 pages 1 –3, for the derivation of the interest for each rate category, and the incorporation of such interest in the calculations of the exogenous factors.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.
D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-2: Please refer to Exh. BSG-1, at 11, and Exh. BSG-4.

Exh. BSG-1, at 11, indicates that the Company uses the prime rate to calculate the accumulated interest (carrying cost) on the outstanding balance. Exh. BSG-4 indicates that the Company uses the pre-tax cost of capital to calculate the accumulated interest on the outstanding balance. Explain which rate the Company uses to calculate the carrying costs on the outstanding balance and why?

RESPONSE: The Company uses the prime interest rate to calculate the accumulated interest on the outstanding LBR balance, once the balance is transferred into the recovery rate (amortization) schedule. The use of the prime rate for deriving carrying costs on reconciling, short-term recovery mechanisms is consistent with the calculation of carrying costs on the reconciling items in the Cost of Gas Adjustment Clause ("CGAC"), i.e., gas costs, and in the components of the Local Distribution Adjustment Clause ("LDAC"). The Company's CGAC tariff, M.D.T.E. No. 3, and LDAC tariff, M.D.T.E. No. 4, provides for the use of the prime rate for calculating carrying charges.

On the other hand, the reference on Schedule BSG-4, relates to the outstanding balance of LBR before such balance is transferred to the recovery rate schedule. The Company uses the pre-tax cost of capital (14.75 percent) from its most recent rate case (DPU 92-111) for this outstanding LBR balance, as at this point or step in the LBR process, the revenues relate to the Company's revenue requirement and have impacted the Company over an accumulated historical period. The use of the pre-tax cost of capital is consistent with the rate making process of determining a Company's revenue requirement and in turn, developing the associated base rates. The use of this cost rate is also consistent with the use of the pre-tax cost of capital for the DSM Development Period Costs as set out in its LDAC tariff, M.D.T.E. No. 4, Sheet Nos. 3 and 4. Moreover, the use of the pre-tax cost of capital is consistent with the Department's approval of Bay State's LBR calculation in D.P.U. 91-272 (1992), which included carrying charges based on 16.22 percent, the Company's pre-tax cost of capital from Bay State's then most recent rate case, D.P.U. 89-81.

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.
D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-3: Please provide a detailed analysis of how the Company calculated the accumulated interest figures shown in Sch. BSG-3. Provide all data, worksheets, and assumptions used in the calculation.

RESPONSE: See Schedule 2, pages 1-3 for the calculation of the carrying costs on the average monthly balance from the time the exogenous LBR balances were transferred over to the recovery/amortization schedule to the end of the recovery period. The monthly interest amounts from September 2003 through October 2005 are summed and totaled, by rate category, as shown on Schedule 2 (p.1 Res Htg - \$59,610; p.2 Res Non-htg - \$4,798; p.3 C&I - \$81,821), for a total interest amount of \$146,229.

The prime interest rate used from September 2003 through June 2004 represents the actual Federal Reserve prime rate of 4.25% and that same actual rate was used as the projected rate from July 2004 through October 2005. Using the first line on BSG-2, page 1 as an example, the interest of \$3,133 is computed by applying the estimated annual interest rate of 4.25%, adjusted to a monthly rate based on the number of days in the month, to the average monthly balance of \$899,496
 $(.0425 * 30 / 366 * 899496 = \$3,133)$

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.
D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

DTE 1-4: Please refer to the Exh. BSG-1, Att. A. Calculate the variance in the Company's allowed return on equity ("ROE") for the years 1995 to 2003 and the ROE realized by the Company during these years.

RESPONSE: Bay State's last allowed rate of return was established in its general rate case in Docket DPU 92-111. The level granted by the Department was 11.4%. Please see Attachment DTE 1-4 for the revised calculation of the variance between the allowed ROE of 11.4% and the level realized during the period 1995 through 2003.

BAY STATE GAS COMPANY

<u>Line No.</u>		<u>1995</u>	<u>1996</u>	<u>1997</u>	<u>1998</u>	<u>1999</u>	<u>2000</u>	<u>2001</u>	<u>2002</u>	<u>2,003</u>
1	<u>NET UTILITY INCOME AVAILABLE FOR COMMON SHAREHOLDERS</u>									
2	Total Utility Operating Income - Annual Return - Pg. 10, Ln. 18	34,062,981	33,116,469	26,240,664	12,357,291	28,575,620	32,193,853	28,244,455	23,054,441	30,560,368
3	Plus: Amortization of Acquisition Premium	0	0	0	0	10,140,000	11,160,000	11,030,299	11,120,955	11,126,708
4	Plus: Service Quality Penalties				156,250	312,500	1,142,000	250,000	0	0
5	Total adjustments (Ln. 3+4)	0	0	0	156,250	10,452,500	12,302,000	11,280,299	11,120,955	11,126,708
6	Other Taxes									(2,000,000)
7	Income taxes on adjustments	0	0	0	61,289	4,099,993	4,825,460	4,424,697	4,362,195	4,338,451
8	Net Additional to Utility Operating Income (Ln. 5+6-7)	0	0	0	94,961	6,352,507	7,476,540	6,855,602	6,758,760	4,788,257
9	Less: Total Interest Charges - Annual Return - Pg. 10, Ln. 39	14,157,523	13,116,686	14,213,383	15,081,324	18,232,642	19,646,734	15,867,385	14,443,886	10,512,608
10	Less: Dividends Declared - Preferred Stock - Annual Report - Pg 10, Ln 48	298,369	288,587	285,369	47,129	0	0	0	0	0
11	Total	14,455,892	13,405,273	14,498,752	15,128,453	18,232,642	19,646,734	15,867,385	14,443,886	10,512,608
12	Utility Ratio	89.38%	88.94%	86.84%	88.11%	92.14%	92.14%	91.65%	91.98%	91.72%
13	Utility Interest Charges (Ln. 11 * Ln. 12)	12,920,968	11,923,316	12,590,220	13,329,107	16,798,987	18,103,175	14,542,773	13,285,790	9,642,164
14	Income taxes on difference (Ln. 11 - Ln. 13) * 39.225%	602,074	581,298	748,622	705,793	562,351	605,461	519,579	454,263	341,432
15	Net Utility Interest Charges (Ln. 13 + Ln. 14)	13,523,042	12,504,614	13,338,842	14,034,900	17,361,338	18,708,636	15,062,352	13,740,053	9,983,596
16	Net Utility Income (Ln. 2 + Ln. 7 - Ln. 14)	20,539,939	20,611,855	12,901,822	(1,582,648)	17,566,789	20,961,757	20,037,705	16,073,148	25,365,029
17	<u>TOTAL UTILITY COMMON EQUITY</u>									
18	Total Proprietary Capital - Annual Return - Pg. 9, Ln. 13									
19	Balance Beginning of Year - Column B	232,805,333	240,135,682	246,801,828	251,459,757	226,606,203	529,437,337	531,868,320	534,380,713	520,651,696
20	Balance End of Year - Column C	240,135,682	246,801,828	251,459,757	226,606,203	529,437,337	531,868,320	534,380,713	520,651,696	529,215,174
21	Average (Ln. 19 + Ln. 20)/2	236,470,508	243,468,755	249,130,793	239,032,980	378,021,770	530,652,829	533,124,517	527,516,205	524,933,435
22	Less: Average Preferred stock - Annual Return - Pg. 9, Ln. 4	5,218,400	5,077,075	4,963,200	2,458,175	0	0	0	0	0
23	Less: Average Unamortized Acquisition Premium net of deferred income taxes	0	0	0	0	157,558,788	311,049,575	304,310,878	301,333,146	291,311,230
24	Total Average Common Equity (Ln. 21 - Ln. 22 - Ln. 23)	231,252,108	238,391,680	244,167,593	236,574,805	220,462,983	219,603,254	228,813,639	226,183,059	233,622,205
25	Utility Ratio	89.38%	88.94%	86.84%	88.11%	92.14%	92.14%	91.65%	91.98%	91.72%
26	Total Average Utility Common Equity (Ln. 24 * Ln. 25)	206,697,799	212,037,403	212,026,781	208,437,097	203,127,703	202,349,972	209,712,236	208,047,927	214,278,286
27	Return on Equity (Ln. 16/Ln. 26)	9.94%	9.72%	6.08%	-0.76%	8.65%	10.36%	9.55%	7.73%	11.84%
28	Allowed Rate of Return from DPU 92-111	11.40%	11.40%	11.40%	11.40%	11.40%	11.40%	11.40%	11.40%	11.40%
29	Variance	-1.46%	-1.68%	-5.32%	-12.16%	-2.75%	-1.04%	-1.85%	-3.67%	0.44%

COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

RESPONSE OF BAY STATE GAS COMPANY TO THE
FIRST SET OF INFORMATION REQUESTS FROM THE D.T.E.
D.T.E. 04-57

Date: August 20, 2004

Witness Responsible: Joseph A. Ferro

- DTE 1-5: Please refer to Exh. BSG-1 at 12, and Exh. BSG-3.
- (a) Explain why the dollar amount for Non-Heating customers is negative \$8,813 (see Exh. BSG-3, ln. 12).
 - (b) Explain how Bay State calculated the dollar amounts in Exh. BSG-3, ln. 2-25. Provide all data, worksheets, and assumptions used in the calculation.
 - (c) Explain how Bay State determined "the weighted average incremental base rate price, by respective rate class that the Company would have charged its customers for the lost sales volumes." Provide all data, worksheets, and assumptions used in the calculation.

RESPONSE:

- (a) The dollar amount for Residential Non-Heating customers is negative \$8,813 as a result of a transferring Residential Non-heating class LBR, associated with heating measures (rebate programs) for non-heating customers, to the Residential Heating class. This crediting of LBR to the non-heating class, and the corresponding charge to the heating class, was necessary because the therm savings and associated LBR was initially tracked under the non-heating class. These measures were assigned and tracked in this class because at the time the measures were scheduled these customers were non-heating. Once the measures were installed, these customers became heating customers. However, the DSM tracking system was not updated and thus, did not recognize the change in rate class, and continued to charge the LBR to the non-heating class.

This method of tracking has since been modified such that any non-heat customer that installs a high efficiency heating system has its rate class automatically changed to a heating rate class, thereby allowing the therm savings, and associated LBR, to be correctly assigned and tracked to the correct customer class.

- (b) The detailed calculations supporting the dollar amounts shown on lines 2, 3, 5 and 6 were provided as Attachment D to Schedule

BSG-1. The figures on lines 11, 12, 14, 15, 20, 21, 23 and 24 were taken from the Company's filings to the DTE provided in response to DTE 1-13 (LBR Nos. 15 and 16). The remaining lines are simple additions as noted on Schedule 3.

- (c) Bay State determined "the weighted average incremental base rate price, by respective class, that the Company would have charged its customers for the lost sales volumes" by using the same methodology as it has used to derive the base rate that is applicable to fluctuating sales volumes due to a deviation from normal weather in its last base rate case, DPU 92-111. This methodology uses a bill frequency analysis to capture the sales volumes associated with the customer bills that terminated in the head block, and the ratio of those volumes to total sales volumes. Such ratio is the weighting factor of the head block price. The weighting factor of the tail block price represents the ratio of the tail block consumption to total sales volumes. It's the Company's understanding that this methodology of deriving a weighted average base rate was first instituted by the Department in the Commonwealth Gas rate case, DPU 87-122.

For the purpose of pricing the therm savings in its LBR calculation, the Company has been using a sales volume weighting of head and tail block prices based on a 3-year average of bill frequency volume results for the three-year period of November 1996 through October 1999. Prior to establishing this 3-year average, the Company was using a rolling 3-year average of bill frequency results. Since this updating of a three-year average to more precisely determine weighting factors to apply to current head and tail block prices should not yield any material differences, the Company has left the weighting factors at this 3-year historical average.

See Attachment DTE 1-5 (c) for the worksheets that present the bill frequency results and the resulting weighted average base (or net revenue) rates.